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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000681

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DEPT FOR EB/ESC/IEC GALLOGLY AND GARVERICK  
DOE FOR HARBERT/EKIMOFF/PISCITELLI/TILLER

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TAGS: [EPET](#) [PGOV](#) [PREL](#) [BO](#) [RS](#)  
SUBJECT: GASTRIC REFLUX: NEAR-TERM ECONOMIC AND POLITICAL  
STABILITY

REF: A. MINSK 676  
[1](#)B. MINSK 674  
[1](#)C. MOSCOW 3777

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

#### Summary -----

[1](#)1. (C) On August 3, Belarus made initial payment on its debt to Gazprom as ordered by Lukashenko. GOB foreign reserves remain sufficient to preserve economic stability in the short term, although Belarus likely will seek foreign credits in advance of further increases in gas prices in 2008. Politically, Lukashenko once again deflected blame; Prime Minister Sidorskiy may become a principal scapegoat. He also hopes to refocus the EU's attention away from democratic reforms and towards energy security. End summary.

#### Belarus Pays Up -----

[1](#)2. (U) On August 3, just before the deadline set by Gazprom, Belarus made its first payment on its overdue debt to the Russian gas monopoly (reftels). USD 190 million was transferred from Belarus' foreign reserves and Belarus agreed to pay the remaining amount within a week. Belarus will also begin paying in full for further shipments of gas. (Note: Belarus has been paying USD 55/tcm versus the USD 100/tcm called for by the contract inked on New Year's Eve 2006. End note.) A Gazprom spokesman stated later on August 3 that Belarus still faced a reduction in gas shipments of 30 percent if the GOB did not make final payment by August 10.

#### Foreign Reserves Sufficient Through 2007 -----

[1](#)3. (C) Economist with the Institute of Privatization and Management's Research Center (IPM) Aleksandr Chubrik confirmed to Acting Pol/Econ Chief that for the time being payment does not jeopardize Belarus' economic health. However, he predicted that the trade balance would worsen in the winter due to seasonal factors, with the increase in gas prices scheduled for January 2008 exacerbating matters.

#### Loan from Russia Still On the Table -----

[1](#)4. (C) IPM Deputy Director Irina Tochitskaya said the GOB would still push to get a loan from Russia, with the main

sticking point Russia's calls for access to further privatizations in Belarus. Mises Center analyst Yaroslav Romanchuk said that Russia still seeks to "creep" into Belarus through privatization. Despite Lukashenko's bravado that western banks would loan him money, Chubrik and Tochitskaya said European banks would not loan Belarus money at less than 8.5 percent interest, whereas Belarus' First Deputy Energy Minister claimed Russia would eventually lend to Belarus at 5.96 percent interest. Chubrik believed Russia would adjust its budget in the fourth quarter, allowing for a credit to Minsk in October.

#### Politically Lukashenko Again Avoids the Blame

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15. (C) The August 2 evening news featured over 15 minutes of Lukashenko blaming Russia for Belarus' economic problems. The monologue included suggestions that Prime Minister Sidorskiy had somehow failed in his July 30 mission to Moscow. Tochitskaya likened the situation to the first act of a lengthy play that concludes with Sidorskiy's dismissal. She noted that in Belarus the National Bank answers to Lukashenko, not Sidorskiy, making it disingenuous for the dictator to claim his prime minister could have independently come up with the funds to pay off the debt.

16. (C) Romanchuk said Lukashenko turned the situation to his advantage. He mobilized the population against Russia once again, claiming that the blame for the looming economic consequences of higher gas prices lies with Moscow. Additionally, Lukashenko hopes to use the spat to keep the EU talking about energy security rather than human rights and democracy.

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Comment: Just Wait Until January

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17. (C) Lukashenko seems to have realized that Moscow will no longer back down in its slow but steady march to base its relations with Minsk on modern economic realities. It is clearly his fault that Belarus' noncompetitive industries in many cases will sooner or later compete head to head with Russian companies that have undergone restructuring years ago. Unfortunately, Lukashenko has a surplus of propagandists ready to portray Moscow and incompetent underlings as the ones to blame.

Stewart